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NATIONALIZING THE RAILROADS

Consolidation Accomplished, Competition Ends, and With it Private Ownership

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MUCH has been written about the desirability of private versus public ownership and operation of the railroads, but there has been little discussion of what may be termed the natural history of railway development and its necessary consequence; viz., the nationalization and unification of the entire transportation system of the country.

For more than a year there has been a continuous search for an acceptable way to return the roads to their former owners, but no way of doing so has thus far been found. It is time to ask whether force of circumstances may not compel us to nationalize as other nations have done in spite of a popular wish not to do so, and in spite of temporary makeshifts like government guarantees of profits and like the pending Senate and House bills, which, while pretending to return the roads to private ownership, in reality only make the gesture of doing so.

The railroads of the country were developed by its most experienced minds through a process of intense competition which consciously had one end in view; viz., the consolidation of many roads into a few systems. For fifty years progress was made in this direction—and unconscious progress toward one system. We have reached the conclusion of this process of natural selection under government auspices, because the war precipitated that result, which was inevitable in any event.

Prior to the war, the Sherman Law, which was intended to prevent the consolidation of systems, operated to promote their bankruptcy, because of a policy of starvation which increased expenses without permitting a corresponding increase of revenue. This accelerated absorption of the weaker by the stronger roads. The war demonstrated the defects of the Sherman Law which was scrapped in 1917, and the railroads placed under one federal control for war purposes.

From the beginning, the railroad history of the country has been a record of exploitations, absorptions, expansion and bankruptcies, and then the same processes repeated over and over again, the units being larger each time. It was the lack of guarantees and the risks incurred which made railroad service in the United States so cheap at the expense of the investor. The systems were in truth gradually consolidating themselves under a regime of most intensive competition. The law of natural selection, operating freely, brought to the front the kind of men who developed our railroads and attained such remarkable results in so short a time, culminating in the greatest railroad system of the world.

The competitive conditions which produced men like Vanderbilt, Huntington, Hill and Harriman, admittedly no longer exist. How then is it possible to reinstate competitive railroad organization? Are not the proposed "regional systems," to be equipped with "regional directors," in supposed "competition" with each other, merely camouflaged semblances of the older order of real things which has passed away? Are not the proposed "zones" comparable to the several floors of a single department store, each with its respective floor manager in charge? Is not all this machinery a mere pretense which may obstruct rather than facilitate the operation of a national system already unified?

The government, by general consent, determines freight rates, wages, hours, schedules, routing, joint operation of terminals equipment and ticket offices, safety devices, issue of securities, uniform accounting, and, most important of all, credit—and there is general agreement that these governmental powers should be perpetuated. It is also cooperatively developing water transportation. Aside from the purchase of supplies (a most dangerous function under a government guarantee of profit), what is there which can be delegated to private initiative? The genius of the old time leaders was not exercised under such conditions. The objective for which they consciously and unconsciously competed has been achieved, and it follows that railroad competition is now as much a thing of the past as they are.

Private competition, having achieved consolidation and administrative unity, the old order naturally ends in monopoly either public or private, which is without initiative except as it shall be motivated by the government. Is it not then reasonable to anticipate the nationalization of the railways of the country as a

single administrative unit without prospective profit for anyone, and for the sole purpose of providing public transportation?

In truth, the present issue really is:—How can we substitute for the existing system of mixed government and private control without responsibility, a genuine policy of responsible government ownership and operation? In short, how shall the old owners be bought out and the new machinery set up?

All of the suggestions which have been made for a return of the properties to their owners contemplate a government guarantee of freight rates sufficiently high to provide for interest, dividends and the attraction of new capital. In other words, the demand is for a prospective private-service profit with a government guarantee behind it; and this in spite of the fact that real competition which should be the quid pro quo for such a bargain no longer exists and cannot be resuscitated.

Since, as already noted, the government is to permanently assume the essential attributes of ownership, it follows that if the properties shall be returned to their former owners for operation, a guarantee of profits must be assured before resumption of functions can safely be undertaken by them. This will be necessary since they are to take orders from the government as to how they shall operate, what they shall get and what they shall give—except as such instructions may be modified by their power to influence the government and by the power of organized labor and public opinion to influence both them and the government. In all essentials they will be “dummy” operators without responsibility but assured of profits. This outcome, if effectuated, will be as absurd as it will be unpopular and fugitive; for there is no reason to think that Congress will be any more considerate of the rights and privileges of private railroad ownership after the war than it was during the ten years preceding it. Public patience indeed tolerated poor service at comparatively high rates as a public necessity during the war and reconstruction periods. But the railroads were then, and are now being operated as a Government function, and whenever they cease to be so operated the former antagonism **against private privileges** and even private rights will reassert itself, both in and out of Congress. Except as a figure of speech, the railroads have already been irrevocably nationalized—but not paid for—and what the owners are demanding under verbal cover of a return to pri-

vate ownership is in reality the delegation of agency powers to operate and speculate, with assured profits and no risk.

Is not a government promise that rates shall be kept sufficiently high to recompense invested capital and to attract new capital less desirable than will be a valuation of railroad properties accompanied by a definite guarantee of interest upon them, or an exchange of railway securities for government bonds? The Federal Government must in the end hold the bag under all recommendations which can be made. Why then should it be asked for anything more than a direct interest payment or an exchange of public bonds for private securities?

A guarantee of interest is a simple, direct obligation of the government easily understood, and, if once undertaken, not likely to be avoided. The delegation of the power to initiate rate-making on a basis sufficiently remunerative to provide for all contingencies and to include a profit in addition, will be a more complicated obligation for the government to enter into and one which is much more likely to be avoided by Congress in deference to popular opposition to high rates and special privilege. Profits are elusive and will be attacked and must be defended. Interest payments on railroad securities transmuted into government bonds are definite obligations.

Have not security owners been wrongly advised to demand that the legal basis for rates shall be their vested interest in the roads regardless of changed conditions? Whether the object of this demand is really the establishment of profitable rates, or is intended to establish indirectly by statute a basis of value for subsequent expropriation, the consequence of either motive will be to raise a dangerous provocative issue against railroad security owners who will be accused of attempting to create fictitious profits and values by legislation.

Since the physical valuations of railroad properties thus far reported by the Interstate Commerce Commission are unexpectedly liberal and since the present government guarantees also afford a reasonable basis for expropriation—from the security owners' standpoint, is not the present time more propitious for appealing to Congress to take over the roads than after a protracted, unpopular and doubtful struggle to obtain largely increased rates shall have been gone through with? Director General Hines has stated that rates will not be increased during the period of federal control. Is there any reasonable ground for the belief that what

has been denied during the period of public operation for public use, will be permanently acceded to during a possible period of private operation for private profit? When private competition—that is initiative—stops, private profit should also stop, because no equivalent service is rendered in exchange. All that investors can then reasonably ask or expect, is to get back the just value of their investments after having organized service.

Profits in Excess of Wages and Interest Not Available for Either Labor or Capital

The railroad employees' demand for lower living costs or higher pay and the truthful though stultifying admission that higher pay necessarily implies still higher living costs, have served to focus the attention of the country upon the necessity for promptly deciding what shall be done. Perhaps it is as well that the *impasse* into which the railroad problem has brought us should be broken through in this rough manner since apparently little progress towards solving it otherwise was being made.

The interdependent relationship between wages and prices is evident. The working people are the great mass of the population. They are the body of consumers who in fact pay the high commodity prices which are in part occasioned by their exaction of a living wage. If wages go up, living expenses go up; and the wages of transportation workers intimately affecting as they do the cost of all commodities are the most potential of all factors to raise or depress prices. They may in fact be regarded as the keystone of the cost-price structure. Do not the brotherhoods spoil their argument for government ownership by coupling with it a demand for a contingent operatives' profit? Wages must be adjusted at least to the point of restoring purchasing power, but operative profiteers, whenever they show themselves, will be just as objectionable to the farmers, factory workers, city dwellers and voters of the country as are stock exchange and safe deposit (?) profiteers. A government-ownership issue will doubtless be introduced into the next campaign, but it is safe to say it will not prove popular if accompanied by a class-profiteering plan.

The increased expense of operating the railroads, apart from higher material and labor costs is in part the consequence of inefficient functioning and in part the result of a conscious and unconscious sabotage, which permeates the service because no

one's status has been established and the system itself is believed to be temporary. Indeed, we do not now have government operation, but instead a quasi-private, quasi-public operation, one of the recognized objectives of which is to discredit the government and so bring about a return to the old order of things.

As to a division of prospective profits between operators and security owners, to serve as an incentive to efficiency, the answer is that there is small likelihood of profits where there is not responsibility for losses and, if there shall be profits, the operatives will demand them all and probably will get them to the exclusion of the holders of securities and the public. The promise of such profits will also serve as an incentive to conspiracy between owners and operatives and to still further demands for larger profits out of the public.

Since it is admitted that the government will hereafter exercise the essential functions heretofore left to private initiative, since it must undertake compensation to owners for their properties, and pay the highest going wages for their operation, why should it be called upon further to burden itself with profits either for owners or for operatives?

Terminal Integration and Highway Competition

Improved highway transportation and unified terminal operation at interior transfer cities and at seaports, made necessary by the stress of war conditions, has so completely demonstrated the advantages of integrating transportation functions, that it is probable that integration will be extended and will not be reserved. If so, how will it be possible to unscramble the terminals at the great cities? If the terminals are to be used jointly why not the roads?

It has become the general custom to short-haul commodities between points of origin and destination by motor trucks over the public highways. The advantages of this as compared with the former railway service involving three hauls and two additional transfer handlings needs no comment. Railroad revenues have suffered severely as a consequence of this change, and they will continue to suffer.

Private Rail Profits and Public Waterways Incompatible

Improved waterway transportation has not yet been permitted to exercise its full influence upon railway communications since

the Federal Government functioning in its present dual capacity as guardian of the public interest and also as trustee for the security owners, cannot with justice permit unrestricted water competition to take effect.

Under pre-war conditions the railroad policy of the country was deliberately and necessarily planned to prevent the most effective utilization of its vast inland and coastwise water carrying systems. As long as the government shall continue directly or indirectly to administer the roads under guarantees of profit instead of acquiring them, its necessity for maintaining railroad revenues with which to meet its guarantees and also its obligation to return the roads to their owners properly safeguarded, compel it in part to pursue the same policy of discrimination against water and in favor of rail transportation which characterized the relations of the railroads to the waterways for fifty years prior to the war. That policy was one of destructive competition successfully directed to the elimination of water transportation except as a potential influence upon freight rates.

No satisfactory joint use of rail and water carriers in such a manner as to realize the full benefits of both services can be had while the two kinds of transportation shall continue to be antagonistic to each other—one private, the other public—or so long as there shall be an obligation to consider the profit and loss account of one system apart from the whole. A single federal control is necessary to reconcile these rival interests. Such control should be complete over the railroads both as regards ownership and administration, and at the beginning, at least, directive over the water routes.

The great water routes of the country are the Panama and West Coast route with its potential joint railroad utilization; the Atlantic coastal route with its similar rail connections; the Great Lakes route with its double water outlet via New York and Montreal and its utilization for combined rail and water service; the Erie Canal system; the Mississippi and Ohio River system; the Black Warrior system and the Chesapeake and Delaware system, including its possible extension north to Boston and south of Norfolk.

The two ocean systems have been effectively utilized as all-water carrier routes, the Great Lakes system has been eminently so developed, and combined water and rail service on these three routes has been as effective as the railroads would permit. Trans-

portation on the other routes, while indirectly tending to lower railroad freight rates, has not been materially advanced because of the obstructive policy which the rail carriers and the government itself for the time being, have of necessity been compelled to adopt toward the water carriers in the attempt to maintain the profits of private rail ownership. While all-water transportation over these routes has been minimized, it has also been made economically impossible to develop the best system of combined rail and water service by which communities away from the water could obtain the advantages of linking the cheaper but restricted water service with the ubiquitous railroad service. There has never been a fair or satisfactory basis for pro-rating combined water and rail shipments. United States railroad rates are comparatively low near and along the waterways and comparatively high traversely to, and away from, them. If railway, highway, and waterway transportation and terminals shall be modernized and used jointly for the benefit of the whole country in conjunction with a fair basis of pro-rating between rail and water carriers, then railroad transportation cannot be conducted as a segregated business.

In this connection, it is urgently recommended that the report of the Inland Waterways Committee of the Railroad Administration, which has submitted to the Director General in the summer of 1918, be now published and studied in its relation to the railway problem.

Until a national cooperative policy between land and water carriers shall have been established, there can be only one safe policy for waterway development; viz., to consider the great inland waterway routes as arms of the sea, upon which transportation shall be freely competitive and unrestricted as to rates and conditions of service. Public funds for physical improvements of channels, locks and terminals must be continuously demanded and also the most favorable conditions for interchange of service with railroads to cities not accessible directly by water must be insisted upon. Only by the cultivation of an imperative public demand for these factors of success can waterway transportation be safeguarded against the adverse attacks of private railroad interests.

The Government has begun to equip the Mississippi River and the Erie Canal with modern fleets which are already in competition with the railways and can under-bid them for coarse

freights. On both of these inland waterways the Government now controls transportation. What then will be the consequence of divesting itself of the control and operation of the railroads? How can it hope to reconcile a public competitive waterway policy, with a private gainful policy of operating the railroads? The Government fleets will be expanded, private boat owners will claim the advantages accorded the Government boats, and the coast-wise traffic will develop a similar conflict of interests, and the clashing of these interests will be disastrous for all, if the Government shall separate the administration of the waterways from that of the railways.

It will be to the interest of American seaports to establish a short-haul movement from the point of origin to the nearest water route leading to such ports whether it be an inland waterway route or a coastal route. No universal rule can here be applied other than to say that instead of giving preference as heretofore to the long rail haul, wherever economies can be shown, a combined rail and water service to the seaport should be made possible.

For instance, southern cotton, coal, lumber and other coarse freights should more generally be forwarded to the New England mill district via a rail haul to the coast and thence, by water to the New England factories which are for the most part located within motor truck distances from tidewater.

Through its control of the eastbound grain business at Buffalo, the Government is now in control of traffic on the Erie canal, because the east bound grain movement is the dominating factor in canal policy. The United States Railway Administration controls this New York State waterway by this means, just as effectively as it controls the traffic through the Panama canal. The automatic influence which the Erie canal formerly exercised over railroad freight rates is consequently now vested in the United States. The Government has in this matter assumed a heavy responsibility which will be greatly complicated if the railroads even temporarily go back to private operation.

Is it probable that the public opinion of the country will tolerate a discontinuance of highway, waterway, railway and seaport terminal integration in order to conserve the profits of an outgrown, non-competitive private system of rail transportation?

The economic movement of food, fuel, and raw materials to and from our growing municipal centers and the conduct of

our exports to the sea in competition with foreign rivals is opposed to such a policy.

The prospective separation of terminal charges from the line haul in order to conserve badly needed railroad revenues and to stimulate local enterprise in modernizing terminals, is in conflict with such a policy.

The best use of our waterways and their progressive utilization to avoid the otherwise heavy expense of additional railroad construction necessary to meet the expanding needs of the country's commerce, is out of line with such a policy, as is the declared unwillingness of railroad operatives to live and work in peaceful cooperation under private ownership.

"Private Operation" a Myth

The average stockholder is more careless of his vote than is the average citizen. There never has been a stockholders' management in the popular, democratic sense. What we have heretofore had through proxy representation, has been in the first instance control by speculative promoters for development purposes followed later by exploitive bankers' control. What the country now needs and is preparing to get, is technical control exercised through actual management and modified by popular opinion as expressed through Government representation.

Since the departure of the great competitive organizing owners, the roads have been run, are being run, and will continue to be run, by expert operatives, from the track boss up through the engineering and accounting staffs to the President of the road and the Director General; and the sooner this fact shall be recognized by the Government, the public and by security owners, the better for all concerned. The quality now most needed to bring about efficient operation, is *esprit de corps* in an operation staff composed of representatives of the Government, representatives of the official and classified services and representatives of the owners until these latter shall have been expropriated. Such a staff will in time generate efficiency—not indeed equal to that which existed before competition ended, nor as bad as politics alone can otherwise make it.

Efficient service rendered to the public, not for bonuses and tips, as has been proposed, but for just wages and salaries, in a distinguished and honorable public service is what the operatives

and the country require and may ultimately expect from the staff.

Absolute safety founded on a just basis of values is what the security owner most needs—in other words, a Government bond—and if he delays much longer to press for this, in the hope of securing the elusive chance of speculative profits, based on politically delegated control over rate making, he is likely to miss his market.

Director General McAdoo's recommendation that Government control shall be extended over a period of five years—carrying with it the tacit implication of perpetuity—is still the common-sense indication of the way out.

By temporizing, and by camouflaging novel facts at variance with American experience, it soothes susceptibilities, and affords the needed opportunity for gradually bringing about a change in our institutions which otherwise would be regarded as revolutionary.

Within the five-year period a national policy can be worked out, fair to all interests, and which will prevent the otherwise inevitable exploitation of owners, operatives and the public.

The country may not, however, proceed directly or indirectly to nationalize its railway system. As a resultant of the influences at work, this may finally be accomplished through a series of transmigrations camouflaged as quasi-private ownership schemes, such as those now pending in Congress. Organization of this kind will, however, tend to make Government control more complex and burdensome in deference to a public opinion which will resent any Government assurance of private profit. Coincidentally, organized labor will not function harmoniously under any semblance even, of private operation, and rates for service will fluctuate with changing political conditions. The weak points of private and public operation will be accentuated and the advantages minimized by all such attempts at mixed control and divided responsibility. During such an interregnum developing experience will continue to point the way to the one inevitable conclusion—viz., complete Government ownership, operation and responsibility.

(In this article I have not referred to the influence of inflation of Government credit upon railroading. This is a most disturbing factor as it is in every branch of commerce and industry, but its principal consequence is to accentuate and make more exigent conditions which would otherwise have worked out the same results more slowly).